MULTIMEDIA **UNIVERSITY**

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FINAL EXAMINATION

TRIMESTER 2, 2016/2017

BLE2074 – LABOUR ECONOMICS
(All sections / Groups)

24 FEBRUARY 2017
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 2 pages with 4 Questions only.

2. Answer **ALL** questions. All questions carry equal marks and the distribution of the marks for each question is given.

3. Please print all your answers in the Answer Booklet provided.

ANSWER ALL FOUR STRUCTURED QUESTIONS (100 MARKS)

Question 1

(a)   "Empirical studies reveal that for men, the substitution effect slightly dominates the income effect when wage rate rise whereas for women, the substitution effect seems to substantially dominates the income effect." Comment on this statement and explain.

(10 marks)

(b)   Explain in terms of income and substitution effects the rationale for a backward bending labour supply curve.

(10 marks)

(c)   Explain why a market labour supply curve slopes upward even though individual labour supply curves are normally backward bending.

(5 marks)

(Total: 25 marks)

Question 2

(a)   The following table shows the number of doughnuts that could be baked daily at a local bakery, depending on the number of bakers.

Table 1

Number of Bakers	Number of Doughnuts
0	0
1	30
2	55
3	75
4	90

(i)   Calculate the marginal product of labour (MP_L) at each number of baker(s).

(2 marks)

(ii)   Define the law of diminishing marginal returns. At what number of bakers does the law of diminishing marginal returns occur?

(3 marks)

(iii)   Suppose each doughnut sells for RM2. Calculate the total revenue and marginal revenue product of labour (MRP_L) at each number of baker(s).

(4 marks)

(iv)   Based on your calculation in part (iii), draw the MRP_L curve, which is the demand curve for bakers.

(2 marks)

Continued...

(v)　Based on your calculation in part (iii), if each baker is paid RM40 per day, how many bakers will the bakery owner hire, given that the goal is to maximize profits?

(2 marks)

(b)　Identify and explain **THREE (3)** determinants of the elasticity of labour demand.

(12 marks)

(Total: 25 marks)

Question 3

(a)　Describe how wage differentials may arise based on:
(i) Efficiency wage payment theory (ii) Compensating wage differentials theory

(8 marks)

(b)　Suppose workers with similar skills and education earn different wages. Cite and discuss **FIVE (5)** circumstances under which these wage differentials will persist.

(10 marks)

(c)　Using the hedonic theory of wages, describe the expected observed relationship between wages and nonwage job attributes.

(7 marks)

(Total: 25 marks)

Question 4

(a)　Suppose that all employees in the economy are covered by the minimum wage law and that labour and product markets are perfectly competitive. Show graphically and analyse the likely labour market impacts of the relevant minimum wage law with respect to labour market wage, employment levels and allocative inefficiency.

(8 marks)

(b)　Discuss **TWO (2)** factors that will dampen the minimum wage effects.

(4 marks)

(c)　The minimum wage law implemented in Malaysia will encourage foreign workers to migrate to Malaysia. Discuss **TWO (2)** positive and **TWO (2)** negative externalities when the workers who migrate leave jobs in their country.

(8 marks)

(d)　Explain wage and employment outcomes of unionized labour markets using monopoly union model.

(5 marks)

(Total: 25 marks)

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